



Montreal Trust
88th Annual Report
for the Year Ended
December 31
1977

Clockwise from upper left.
New Victoria office now under
construction

Renovated heritage building
houses new Kingston branch

Relocated main Edmonton branch

Relocated Sudbury branch.



Montreal Trust: People Serving People

Every day, in every division of our corporation, there is a multitude of transactions between Montreal Trust people and our clients.

By virtue of our business, these are financial transactions, and yet, in every case, they are accompanied by a genuine understanding of the words "personal service".

Starting in 1889, as the Montreal Safe Deposit Company, our earliest services were designed to protect valuable possessions – from which ultimately emerged our corporate name; Montreal Trust. As the Company grew and expanded, we were able to provide a greater

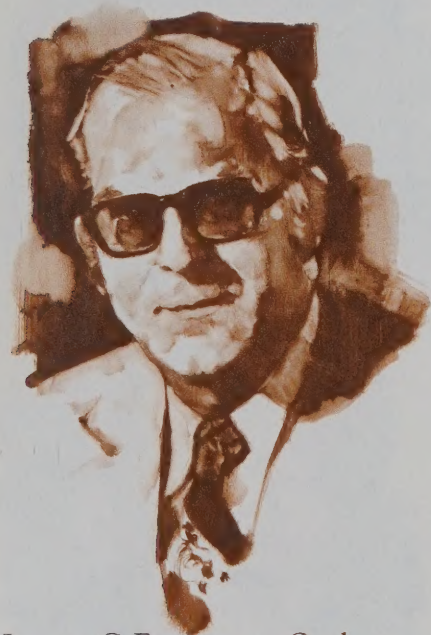
variety of personal trust services. In many instances we became involved in close and confidential relationships with our clients.

Today, as a full service trust company, we find that many people seek our advice regarding their financial affairs. Helping clients provide for their families' future is a serious responsibility. We have been able to measure up to these needs for more than 88 years. Our people have worked hard to relate to the variety of financial problems our clients encounter.

As a shareholder, you may be familiar with the names of the Company's officers. However, most of the people who are responsible for the successful operation of this Company are unknown to you. It is also possible that you are not familiar with all aspects of the Company's operations. With this in mind, we present a brief profile of many of our Company's functions and introduce a representative sample of people we serve in our various branches across the country.

Our earliest activity, safe-keeping, led to our first trust company function acting as executor and trustee.

Many estates take the form of trusts often with complicated stipulations for the way in which property will be distributed. Sometimes funds are held for the benefit of future generations, or a charitable foundation may be established which will provide funds for worthwhile projects year after year. We are continually of immediate and practical assistance, helping people deal with the maze of paperwork that follows the death of a companion or close relative. Where the operation of a business or management of a property is involved, we are able to step in immediately with professional and experienced management.



Jacques G. Francoeur, a Quebec newspaper publisher and President of The Canadian Daily Newspaper Publishers Association, is one of our personal trust clients.



Sailmaker, Colonel Gordon G.K. Holder of Saint John, New Brunswick is a Savings Account client.



Mrs. W.D. Wright lives in Brockville, Ontario and invests in Montreal Trust Guaranteed Investment Certificates.



Montreal Trust clients from across Canada illustrate the diversity of people, needs and regions the Company serves.

Highlights

	1977	1976
Revenue	\$ 59,467,000	\$ 52,972,000
Net operating income	\$ 5,709,000	\$ 4,967,000
Per share	\$ 2.22	\$ 1.93
Net income	\$ 5,757,000	\$ 5,015,000
Per share	\$ 2.23	\$ 1.95
Dividends	\$.86	\$.80
Total assets	\$ 957,217,000	\$ 859,270,000
Shareholders' equity	\$ 48,481,000	\$ 44,936,000

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Annual Meeting:
Thursday, April 6, 1978
12:00 o'clock noon
Le Château Champlain
Place du Canada
Montreal, Quebec

MONTREAL TRUST
1 Place Ville Marie
Montreal, Quebec H3B 4A8



Member of the Trust Companies
Association of Canada

Si vous préférez recevoir
ce rapport en français,
veuillez vous adresser au
secrétaire, Montréal Trust.

It is very difficult to equal the satisfaction that comes to our Montreal Trust officers when they provide such needed and valued services.

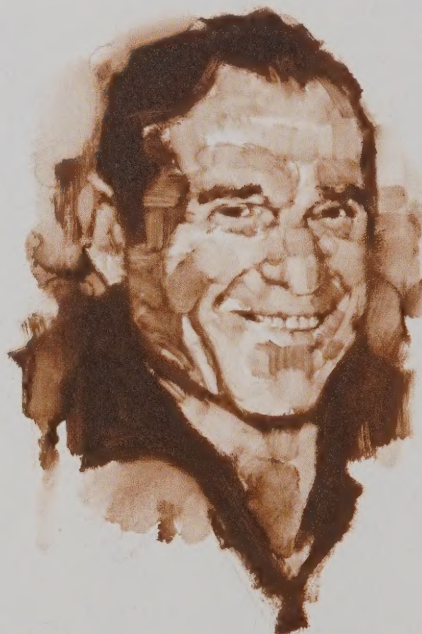
Throughout our Company there are warm and on-going relationships between people, ranging from savings account deposit and withdrawal transactions to the complexities of managing substantial investment portfolios.

We meet people every day who are saving for a better tomorrow. They are saving with us because of the high interest our accounts pay and the courteous, efficient service we provide. Perhaps they come to us to purchase a Guaranteed Investment Certificate, participate in one of our many investment funds or establish a Retirement Savings Plan.



Fifteen year old John Davis Jr. of Truro, Nova Scotia has a Savings Account with Montreal Trust.

We know, for example, that as income tax time approaches, our Retirement Savings Plans are very popular. They allow people to save for their future security while enjoying immediate tax savings. On the other hand, Guaranteed Investment Certificates are in favour year-round because they yield a high guaranteed return. Our Guaranteed Investment Certificates are also used by astute businessmen looking for a high quality short-term investment for idle cash.



Mr. John Jaskula, a recently retired foreman, lives in Hamilton, Ontario and benefits from a Montreal Trust Registered Retirement Savings Plan.

Our personnel find the time to listen, to discuss, to counsel. In the process, we have helped introduce tax savings programs for small businesses and establish short-term savings goals for young couples.

One of the most rewarding products we have for younger people is the Registered Home Ownership Savings Plan which allows tax-free contributions when saving for a first home. We also assist in another very important way by providing mortgage financing. A Montreal Trust mortgage is, like so many of our activities, a long-term, mutually satisfactory arrangement.

For our customer it is a chance to build up equity in his or her most important possession. For Montreal Trust it is the most important way in which we invest our depositors' funds.



Gladys Fisher of Kelowna, British Columbia, a retired registered nurse, has a Sixty-Plus Savings Account with Montreal Trust.

Our mortgage lending activity also gives us an opportunity to invest directly in the future of the communities in which we live and work...to be the kind of corporate citizen that has earned the respect of Canadians, and their governments. In addition to being very active in the financing of single family residences, we also provide funds for condominiums, apartments and commercial buildings. In this way we help accommodate all Canadians, whatever their needs.



Michel Charlebois of Ile d'Orleans is a fabric designer who financed his home with a Montreal Trust mortgage.

Mortgage loans led us quite naturally to the business of real estate sales. Here, our employees must satisfy the needs of both buyers and sellers. To do this they require an accurate and up-to-the-minute understanding of local and regional real estate regulations and market conditions. It is by design, not by chance, that we have the finest personnel development program in the real estate industry.

As a result of the successful efforts of our real estate division, the Montreal Trust "for sale" sign on a property assures a prompt and equitable transaction.

Through our mortgage and real estate operations we have helped thousands of Canadians establish homes. In this way we have participated in Canada's growth throughout the long span of our corporate history.



Ruth and Cliff Fielding of Richmond, B.C. recently purchased their home through a Montreal Trust Real Estate sales agent.

Over the years we have provided an ever increasing range of personal services, including those related to will and estate planning, executor and trustee activities and savings and investment programs. We have also expanded our services to Canadian companies.



Dr. R. Keith Downey of Saskatoon is involved in Agrology Research and invests in Montreal Trust's Mortgage Fund.

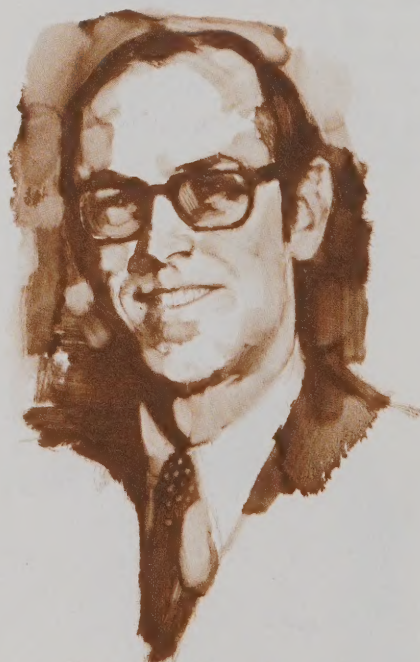
Here, our clients are not individuals but some of Canada's foremost corporations. Many of our dealings are highly technical and specialized including investing and administration of Pension, Profit Sharing and other types of benefit funds, acting as a trustee for debt financing and as transfer agent and stock registrar for public companies. In this capacity we serve shareholders of many client corporations, often deal with inquiries from them, and disburse their dividend payments. We are proud of the work we do on behalf of very large

corporations, however, companies of all sizes have found us to be efficient in providing a broad variety of other specialized expert and financial skills. Many officers and executives of client firms have taken advantage of the knowledge and experience of our Executive Planning Service to help them plan their personal financial affairs.

We and our clients know how strong our Corporate Trust Department really is, for, at the root of every service we offer, whether personal or corporate, lies a personal concern for our clients. The real secret of our success is that we are continuously working one to one.



Hockey star, Dave Keon, has a Montreal Trust Savings Account.



James D. Taylor, President of Canadian Astronautics, is a Deferred Profit Sharing Plan client and lives in Ottawa.

Board of Directors

December 31, 1977

† **Clarence E. Atchison**
Vice-Chairman of the Board
The Investors Group
Winnipeg

*† **Douglas A. Berlis, Q.C.**
Messrs. Aird & Berlis
Toronto

Robert W. Bonner, Q.C.
Chairman
British Columbia Hydro and
Power Authority
Vancouver

Kenneth H. Brown, O.B.E., Q.C.
Messrs. Lafleur, Brown, DeGrandpré
Montreal

Frank E. Case
Officer Consultant
Brockville

Arthur J.E. Child
President and
Chief Executive Officer
Burns Foods Limited
Calgary

* **Peter D. Curry**
President
Power Corporation of
Canada, Limited
Montreal

Paul Desmarais
Chairman and
Chief Executive Officer
Power Corporation of
Canada, Limited
Montreal

* **James R. Drumwright**
Senior Vice-President
Bank of America NT & SA
New York

Hon. John M. Godfrey, Q.C.
Messrs. Campbell,
Godfrey & Lewtas
Toronto

* **Matthew S. Hannon, Q.C.**
Messrs. Ogilvy, Montgomery,
Renault, Clarke, Kirkpatrick,
Hannon & Howard
Montreal

* **Robert H. Jones**
President and
Chief Executive Officer
The Investors Group
Winnipeg

† **J. Taylor Kennedy**
Company Director
Montreal

Hon. Jean Lesage, P.C., C.C., Q.C.
Messrs. Lesage, Paquet & Lesage
Quebec

R. deWolfe MacKay, Q.C.
Messrs. Duquet,
MacKay & Bronstetter
Montreal

John E. Main
Consultant
London

* **MacKenzie McMurray**
Company Director
Montreal

J. William E. Mingo, Q.C.
Messrs. Stewart,
MacKeen & Covert
Halifax

* **Gaetan C. Morrisette**
Chairman of the Board
Standard Brands Limited
Montreal

* **Paul Britton Paine, Q.C.**
Chairman of the Board
and President
Montreal

† **Arthur P. Pascal, C.M.**
Executive Vice-President
J. Pascal Limited
Montreal

* **Douglas J. Peacher**
Company Director
La Jolla, California

† **Albert E. Shepherd, Q.C.**
Deputy Chairman of the Board –
Chief Executive Officer
Commonwealth Holiday Inns of
Canada Limited
London

Hershell A. Smith
President
Sooke Forest Ltd.
Victoria

Charles E. Stanfield
Retired
Truro

Arthur V. Toupin
Vice-Chairman and
Senior Administrative Officer
Bank of America NT & SA
San Francisco

*Executive Committee Member

† Audit Committee Member

Officers

Paul Britton Paine, Q.C.
Chairman of the Board
and President

Matthew S. Hannon, Q.C.
Chairman of the
Executive Committee

Harold T. Martin
Executive Vice-President
and General Manager

Head Office

Douglas T. Waite
Vice-President, Branch Operations

J. Gordon Telfer, C.A.
Vice-President, Finance

Anthony G. Best
Vice-President,
Client Services & Marketing

Norman Cunningham
Vice-President, Investments

J. Frank Luce
Vice-President, Personnel

Edward T. Mulkins
Vice-President, Real Estate

J. Grant Paterson
Vice-President, Mortgages

W. Kenneth Proctor
Vice-President, Administration

J. Kevin Reynolds
Secretary

Peter F.S. Nobbs
Comptroller

John J. Davidson
Assistant Vice-President,
Premises and Security

William J. Henderson
Assistant Vice-President,
Pension Services

Robert J. Labelle
Assistant Vice-President,
Mortgages

Douglas B. Macklaier
Assistant Vice-President,
Corporate Services

James P. Moore
Assistant Vice-President,
Mortgage Administration

James Allison
Director, Stock and
Bond Transfer Services

Stuart G. Cooke
Director, Fund Services

James G. Fullerton
Director, Executive and
Estate Planning

Brian H. Skuffham
Director, Pension
Investment Services

Frederick J. Turnbull
Director, Personal Trust Services

Jack H. Whiteley
Director, Corporate Trust Services

Regional

R. Ross Pritchard
Vice-President,
Atlantic Region – Halifax

Jean Luc Dutil
Vice-President,
Quebec Region – Montreal

George Stephen
Vice-President,
Ontario Region – Toronto

Gordon C. McDonell
Vice-President,
Mid-West Region – Winnipeg

Robert D. Quart
Vice-President,
Western Region – Vancouver

Ronald Bond
Vice-President – Toronto

Directors' Report to Shareholders

The Board of Directors is pleased to submit the Company's 88th Annual Report together with the Consolidated Financial Statements for 1977.

The year compares favourably with 1976. Net operating income was \$5,709,000 or \$2.22 per share and net income was \$2.23 per share. The comparative figures for 1976 were \$1.93 and \$1.95.

Revenue and Expense

Revenue for the year rose by \$6,495,000, expense by \$5,819,000, income taxes decreased by \$66,000, resulting in an increase of \$742,000 in net operating income.

Fees and commissions from Trust and Agency services increased by \$935,000. The small increase reflects the fact that the Company did not increase fee scales. Real Estate commissions earned increased by \$2,085,000; Guaranteed Trust Accounts net income increased by \$3,495,000. A major factor in the size of this increase was lower interest rates which reduced the cost of funds used to finance older long-term, low-yielding investments. Guaranteed Trust Accounts net income now includes a material amount of dividends and interest from income debentures not subject to income tax. A reduction in the category "Interest, dividends and other" revenue is attributable to lower interest rates.

Salary expense increased by \$2,101,000. The increase of \$1,283,000 in Real Estate commission expense is in line with the increase in commissions earned. Other expense increased by \$2,435,000 and includes a material expenditure to initiate the development of a new on-line data processing service for our stock

and bond transfer operations. Income taxes reduced as profit before tax includes a larger amount of income not subject to tax than in the prior year.

Balance Sheet

Total assets grew by \$97,947,000 to \$957,217,000 with Guaranteed Trust Accounts assets up \$92,351,000. Marketable securities increased by \$28,173,000. Preferred shares with a variable interest rate relating to the chartered banks' prime lending rate were offered by a number of major corporations and purchases totalling \$19,000,000 were made. These shares, combined with our growing portfolio of short-term mortgages, have enabled the Company to increase deposits and short-term certificates while limiting the exposure of the interest spread to changing interest rates. Five-year mortgages financed by five-year investment certificates continue as a major source of growth. At December 31, 1977, five-year term mortgages were \$464,778,000 (1976 - \$428,201,000) and were financed to the extent of \$424,877,000 (1976 - \$382,627,000) by five-year term certificates.

The sale of our 7.5% interest in RoyWest Banking Corporation reduced our investments in and advances to associated companies.

Of the increase in deferred taxes, \$1,265,000 is attributable to aircraft and vessel leases and the balance is largely related to the reserve claimed for our mortgage and bond portfolio as permitted under the Income Tax Act.

At year-end shareholders' equity was \$18.81 per share compared with \$17.44 the year before.

Directors

The Directors were saddened by the death on February 7, 1977 of Stuart A. Cobbett whose association with the Company spanned a period of over thirty years. He held a variety of positions with the Company and was Chairman of the Board when he retired in 1971. We pay tribute to his long association with and active contribution to the Company.

R. deWolfe MacKay, Q.C., a Director of the Company since 1969, will not stand for re-election having reached the mandatory retirement age. For personal reasons, C.E. Atchison has decided to retire as a Director after ten years of service. The Board gratefully acknowledges their wise counsel and advice.

Advisory Boards

In June, 1977, C. Russell Hughes joined the Brockville Board.

In January, 1978, Geoffrey R. Parsons, C.A., was appointed to the Newfoundland Board and Frederick B. Wickwire, Q.C., was named to the Halifax Board. Consequent upon his appointment to the Supreme Court of Nova Scotia, Doane Hallett, Q.C., resigned from the Halifax Board.

J.R. Anstis, Chairman of the Brockville Board, has reached mandatory retirement age and will not serve beyond our annual meeting date. Mr. Anstis has been a member of that Board for twenty years. We thank him for his long and valuable service.

Dividends

The Shareholders received four regular dividends of 15¢ each during the year. In December, the Board of Directors declared an extra dividend of 26¢ payable on December 30. The payment of



Left: Harold T. Martin, Executive
Vice-President and General
Manager

Right: Paul Britton Paine, Q.C.,
Chairman of the Board and
President

this extra dividend was due to improved earnings and complied with Anti-Inflation Board regulations. Total dividends paid in 1977 amounted to 86¢ per share compared with 80¢ in the previous year.

Personnel

With effect April 1, 1977, George Stephen assumed the position of Regional Vice-President for Ontario. Robert D. Quart was appointed Regional Vice-President, Western Region. Ronald Bond, Manager of Toronto branch, was appointed a Vice-President.

Effective September 15, James P. Moore was appointed Assistant Vice-President, Mortgage Administration.

On December 1, Douglas T. Waite assumed the position of Vice-President, Branch Operations and Anthony G. Best was appointed Vice-President, Client Services and Marketing. Edward T. Mulkins was appointed Vice-President, Real Estate.

John H. Baker, Vice-President, Mortgages and Real Estate, died on October 18. The Company was well served by Mr. Baker for over 12 years, a period during which he occupied a number of executive positions. His untimely death has deprived us of a valued and dedicated officer.

Outlook

From an operational point of view, 1977 was a year of further progress for Montreal Trust during which both our balance sheet and profits expanded to new high levels. While during the year important events were reflected in Canadian financial markets and in the external value of our dollar, the domestic financial scene proved reasonably stable thereby providing assistance in

dealing with the variety of matters which require daily attention. From a planning point of view, however, and consistent with the experience common to most Canadian business, we find little improvement in the environment today compared with that of a year ago. Two important pieces of federal legislation expected to have far-reaching effect on the trust industry, the revision of the Bank Act and the proposed Borrowers and Depositors Protection Act, are by reason of their complexity stalled in the legislative process. Thus we remain unable fully to evaluate their permanent effect on our future operations.

In our report to shareholders last year, we expressed our views concerning the commitment of the then-new Quebec government to forming a state separate from Canada. We also described the national character of our Company, its regulation by each of the provincial authorities for activities carried on within their several jurisdictions as well as our investment policy of maintaining assets in each province proportionate to deposits held in that province. These views and that description and policy remain valid today and need not be repeated here.

The performance of the Canadian economy in 1977 fell below expectations in a number of sectors. Based on analysis of incomplete data it appears that the economy expanded by less than 2½% in real terms with domestic activity rising by only a fraction over 2%. In the foreign sector economic benefits were derived mainly from curtailment of imports rather than from the surge of exports expected to accompany the sharp decline in the exchange value of our dollar. In this regard,

the results seem to reflect the satisfactory experience through the year of our major trading partner, the United States, and sluggish business conditions abroad. At present, the United States economy is expanding favourably but at the same time instability in international exchange markets, the result of the massive American trade deficit, is a cause of major concern to trading countries such as our own.

It is our view that, while Canadian business activity should accelerate in 1978, the level of domestic demand will rise only moderately. This accentuates our dependence on an escalation of external trade to secure the level of overall economic expansion needed to check the disturbing rise in unemployment evident throughout 1977. The overall viewpoint is a year of some recovery with growth measuring approximately 4½% in real terms but with some risk of undershooting this expectation should the U.S. economy fail to achieve the possibly optimistic targets established in the consensus forecast.

Financial and investment planning in 1978 is fraught with the usual array of disturbing elements. Chief among these at the present time is the uncertain prospect of a return towards relative price stability following a disappointing resurgence of inflation during 1977 related in part to the lower Canadian dollar and certain weather related agricultural imbalances. While a hopeful sign is to be found in the moderating trend of negotiated wage settlements, considerable doubt remains that labour will accept voluntary restraint in the post-controls period.

We believe that business and government will be severely tested in meeting that challenge.

In that regard, we observe that real wages adjusted for rising costs have been squeezed and expect that the trend will continue through 1978. Thus, the likelihood of a strong consumer-led recovery is neutralized and we expect personal expenditures to be little more than supportive. Following a period of tight budget control some modest lift in government expenditure is expected, particularly at the provincial level. However, the prospects for any major escalation in business investment should, in our opinion, be pushed out at least until 1979 in view of continuing capacity underutilization and uncertainties concerning future labour costs, a key determinant of investment returns. Housing activity is likely to be maintained under government support programs but we do not perceive any underlying strength in residential construction which would prompt optimism in 1978 given the present condition of near saturation in most metropolitan areas. With respect to trade, it is our view that higher import costs related to the lower Canadian dollar will result in increased demand by Canadians for domestically produced goods. At the same time we are optimistic that an improvement in our trade balance will be further assisted through continued demand for Canadian exports as the United States proceeds through another year of economic recovery.

While 1978 appears to shape up as a better year it will by no means be a good year, and we see no solution in sight for chronic economic imbalances which have been building. Despite improvement in the trade outlook our already massive balance of payments deficit will worsen in 1978 and, given the embedded costs of external debt service requirements on past and future borrowings, the burden can grow but heavier.

An attendant problem is continued deterioration in trade in manufactured goods. A permanent solution to that problem can be found only by achieving and maintaining a cost competitive infrastructure; the problem cannot be removed through currency devaluation.

Sluggish economic conditions have and will continue to have a negative impact on government tax revenues and virtually will assure rising budget deficits. It appears certain that federal and provincial borrowings will dominate the Canadian capital markets in 1978 and it must be recognized that the threat of some upward movement in longer term interest rates is present. However, encouragement is offered in the probability that moderate corporate borrowing will not aggravate overall demand for funds. With respect to short-term interest rates, responsible actions by the Bank of Canada in the past year have provided a stable and adequate monetary base consistent with the level of overall demand. At the present time we see no evidence of deterioration and are inclined towards optimism that stability will be maintained. Despite this, recent events in the United States money market make it more difficult to gauge the outlook in

Canada with full confidence. The yield spread between Canadian and United States rates is now quite narrow and continued upward rate pressure in the U.S. arising from worldwide exchange instability would pose a real threat here.

While the Canadian business and financial outlook for the coming year are not entirely satisfactory, we are confident our highly qualified and efficient personnel will enable us to realize another successful year in 1978. We express our appreciation to all employees for their effective efforts in the year just completed.

All shareholders are encouraged to attend the Company's Annual Meeting which will be held on April 6, 1978, at the Château Champlain Hotel, Montreal.

On behalf of the Board:



Paul Britton Paine, Q.C.
Chairman of the Board
and President.

Montreal, January 30, 1978

Consolidated Statement of Income

for the year ended December 31, 1977

	1977	1976
Revenue		
Fees and commissions _____	\$ 27,063,000	\$ 26,128,000
Real estate commissions _____	15,949,000	13,864,000
	<u>43,012,000</u>	<u>39,992,000</u>
Guaranteed Trust Accounts		
Interest earned		
Mortgages _____	61,938,000	51,532,000
Other investments _____	17,606,000	17,931,000
	<u>79,544,000</u>	<u>69,463,000</u>
Less interest paid _____	69,855,000	63,269,000
	<u>9,689,000</u>	<u>6,194,000</u>
Interest, dividends and other _____	6,766,000	6,786,000
	<u>59,467,000</u>	<u>52,972,000</u>
Expense		
Salaries _____	20,475,000	18,374,000
Real estate commissions _____	10,113,000	8,830,000
Other expense – including depreciation and amortization of \$1,205,000 (1976 – \$1,093,000) and interest on the long-term debt of a subsidiary of \$441,000 (1976 – \$452,000) _____	<u>20,129,000</u>	<u>17,694,000</u>
	<u>50,717,000</u>	<u>44,898,000</u>
Income before income taxes _____	8,750,000	8,074,000
Income taxes – including deferred taxes of \$1,743,000 (1976 – \$2,869,000) _____	<u>3,041,000</u>	<u>3,107,000</u>
Net operating income _____	5,709,000	4,967,000
Profit on sale of investments and property, net of income taxes _____	48,000	241,000
Tax provision pertaining to the 1972 sale of a foreclosed property _____	<u>—</u>	<u>(193,000)</u>
Net income _____	<u>\$ 5,757,000</u>	<u>\$ 5,015,000</u>
Earnings per share		
Net operating income _____	\$ 2.22	\$ 1.93
Net income _____	\$ 2.23	\$ 1.95

Consolidated Balance Sheet

December 31, 1977

Assets	1977	1976
Assets Held for Guaranteed Trust Accounts		
Cash and bank deposit receipts _____	\$ 81,822,000	\$ 76,700,000
Loans, secured _____	17,306,000	17,063,000
Securities		
Marketable (2) _____	105,327,000	77,154,000
Not readily marketable _____	27,829,000	29,444,000
Mortgages _____	650,430,000	590,995,000
Mortgages for sale under agreement _____	7,598,000	6,605,000
	<u>890,312,000</u>	<u>797,961,000</u>
Company Assets		
Cash and bank deposit receipts _____	8,037,000	4,016,000
Loans, secured _____	8,800,000	5,200,000
Accounts receivable and advances to clients _____	7,024,000	8,581,000
Marketable securities (2) _____	14,148,000	13,731,000
Mortgages _____	6,087,000	6,018,000
Real estate held for investment _____	1,426,000	1,487,000
Investments in and advances to associated companies _____	4,147,000	5,555,000
Office premises, equipment and leasehold improvements (3) _____	14,177,000	14,117,000
Other assets _____	3,059,000	2,604,000
	<u>66,905,000</u>	<u>61,309,000</u>
	<u>\$957,217,000</u>	<u>\$859,270,000</u>

On behalf of the Board:

Paul Britton Paine, Q.C., Director

Matthew S. Hannon, Q.C., Director

Liabilities

1977

1976

Guaranteed Trust Accounts

Deposits _____	\$248,849,000	\$212,800,000
Investment certificates _____	641,463,000	585,161,000
	<u>890,312,000</u>	<u>797,961,000</u>

Company Liabilities

Accounts payable and prepaid fees _____	1,620,000	1,690,000
Income taxes		
Current _____	578,000	—
Deferred _____	8,251,000	6,508,000
Long-term debt of a subsidiary (3) _____	7,975,000	8,175,000
	<u>18,424,000</u>	<u>16,373,000</u>

Shareholders' Equity

Capital stock		
Authorized — 5,000,000 shares of \$1 par value		
Issued — 2,576,975 shares (4) _____	2,577,000	2,577,000
Contributed surplus (4) _____	5,803,000	5,799,000
Retained earnings _____	40,101,000	36,560,000
	<u>48,481,000</u>	<u>44,936,000</u>
	<u>\$957,217,000</u>	<u>\$859,270,000</u>

Consolidated Statement of Retained Earnings

for the year ended December 31, 1977

	1977	1976
Balance at beginning of year_____	\$36,560,000	\$33,606,000
Net income_____	5,757,000	5,015,000
	<u>42,317,000</u>	<u>38,621,000</u>
Dividends_____	2,216,000	2,061,000
Balance at end of year_____	<u>\$40,101,000</u>	<u>\$36,560,000</u>

Auditors' Report

To the Shareholders,
Montreal Trust Company.

We have examined the consolidated balance sheet of Montreal Trust Company as at December 31, 1977 and the consolidated statements of income and retained earnings for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1977 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants
Montreal, Quebec, January 30, 1978

Notes to Consolidated Financial Statements

December 31, 1977

1. Summary of Significant Accounting Policies

The financial statements of the Company include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The principal subsidiaries are The Acadia Trust Company, Montreal Trust Mortgage Corporation, Riveredge Village Inc., Treal Properties Limited and Treaver Properties Limited.

The investments in associated companies are stated at cost and their earnings are taken into income only to the extent of dividends received. These and the Company's interest therein at December 31, 1977 were: RoyNat Limited (13.5%), Insmor Holdings Limited (3.99%), Montreal Trust (Bermuda) Limited (40%), Montrad Limited (50%), Alberti Navigation Inc. (10%), and Pacific International Trust Company (12.5%).

All revenue and expenses are recorded on an accrual basis except for fees subject to awards by courts or negotiation, which are recorded on a cash received basis. Income from the aircraft and vessel leases is taken up over the term of the leases pro-rata to the declining balance of the investment not yet recovered. Debt securities and mortgages are valued at amortized cost, other securities are valued at cost. Gains or losses on sale of securities, based on average cost, are reflected in net income. Premises and equipment are stated at cost less accumulated depreciation and amortization. There were no changes in accounting principles from the prior year.

Assets held under administration and assets held for Guaranteed Trust Accounts are kept separate from the Company's own assets and are so earmarked on the books of the Company as to show the account to which they belong. Assets under administration are not reflected in the Consolidated Balance Sheet.

2. Marketable Securities

	1977		1976	
	Cost	Market	Cost	Market
Guaranteed Trust Accounts –				
Government of Canada	\$ 14,854,000	\$ 14,152,000	\$ 12,831,000	\$ 12,036,000
Provinces of Canada	5,379,000	5,048,000	5,310,000	4,983,000
Canadian municipalities	544,000	565,000	620,000	624,000
Corporate bonds, debentures and obligations	47,247,000	47,216,000	44,086,000	43,796,000
Aircraft and vessel certificates*	9,236,000	9,236,000	9,585,000	9,585,000
Stocks – preferred	28,067,000	28,334,000	4,722,000	4,884,000
	<u>\$105,327,000</u>	<u>\$104,551,000</u>	<u>\$ 77,154,000</u>	<u>\$ 75,908,000</u>

*Aircraft certificates represent part ownership of two aircraft leased to Air Canada net of a liability of \$2,477,500 which is secured by a mortgage on an aircraft and the related lease payments. The vessel certificate represents part ownership of a vessel leased to the Province of British Columbia.

	1977		1976	
	Cost	Market	Cost	Market
Company Accounts –				
Government of Canada	\$ 182,000	\$ 167,000	\$ 193,000	\$ 176,000
Provinces of Canada	558,000	509,000	562,000	509,000
Canadian municipalities	29,000	27,000	40,000	35,000
Corporate bonds, debentures and obligations	103,000	89,000	104,000	84,000
Stocks – preferred	3,963,000	3,968,000	3,963,000	3,709,000
– common	9,313,000	9,652,000	8,869,000	8,790,000
	\$ 14,148,000	\$ 14,412,000	\$ 13,731,000	\$ 13,303,000

3. Long-Term Debt

Treal Properties Limited, a subsidiary company, has outstanding 5½% first mortgage sinking fund bonds due April 1, 1991. Office buildings in Toronto and Ottawa owned by the subsidiary and occupied by the Company, with a net book value of \$8,425,000 are pledged as security for the bonds. Sinking fund payments, ranging from \$200,000 to \$250,000, are due in 1978 to 1990 and the balance of \$5,000,000 is due April 1, 1991. The buildings are being depreciated by annual amounts equal to the sinking fund payments, which by April 1, 1990 will amount to 50% of the original cost.

4. Capital Stock

Options have been granted to certain employees to purchase shares of the Company at prices ranging from \$11.25 to \$18.00 per share. In 1977 no options were granted; options on 300 shares were exercised and there were 20,075 shares under option at December 31, 1977. The premium on the shares issued has been credited to contributed surplus.

5. Anti-Inflation Legislation

The Company is subject to the Federal Anti-Inflation legislation relative to prices, profits, compensation and dividends. In the opinion of management the Company has operated and continues to operate in compliance with the legislation and supporting regulations.

Commentary 1977

Mortgages

Mortgage commitments in 1977 again exceeded \$200 million, of which over 90% was allotted to loans on residential properties. We have \$1.77 billion in mortgages under administration secured by some 46,000 properties across the country.

Our short-term (one and two year) mortgages have proved to be popular with borrowers and in 1977 such loans accounted for approximately 30% of the dollar value of our mortgage commitments for Guaranteed Trust Accounts.

An increasing incidence of prepayment of outstanding loans has been a common industry experience requiring redoubled effort to acquire replacement volume. This, together with widely fluctuating loan demand through much of 1977, caused keen competition amongst lenders, a situation we expect to intensify given some uncertainty in real estate markets and with the outlook indicating little change in the level of new housing starts in 1978. Nevertheless, we intend to expand our lending operations in order to meet the investment requirements of investor clients and our own Guaranteed Trust Accounts.

Real Estate

Real Estate gross sales commissions reached \$16 million, a new high for the Company and an increase of 14.7% over the preceding year.

During the year, we opened new real estate offices in St. Hubert, Quebec and in Ottawa and Kingston, Ontario. We also acquired Royal Oak Realty Ltd. in Barrie, Ontario.

Vigorous recruiting programs during 1977 resulted in the employment of the largest sales force in the Company's history. This fuller utilization of existing capacity has helped to increase our share of the market and it is our intention to pursue such recruitment until we approach an optimum occupancy factor.

Our Home Relocation Services continue to grow at a satisfactory rate and we are now one of the leaders in this new and important aspect of the real estate business. We now act for over 120 corporations and other clients, including crown corporations and provincial governments.

Guaranteed Trust Accounts

All classes of deposits grew during the year. The number of holders of Guaranteed Investment Certificates increased to 49,800 and total certificates outstanding increased to 82,300. Of these, 68,000 were for the term of five years. At year-end, Guaranteed Investment Certificates aggregated some \$641.5 million.

Funds from Registered Retirement Savings Plans, both the savings section and five-year compounding certificates, continue to make a material contribution to growth.

Montreal Trust has a variety of deposit options available to meet the needs of individuals in all walks of life. We offer a savings account which pays a high rate of interest with no chequing privileges (individuals over 60 years of age qualify for an extra 1/2% bonus interest) and another which pays a competitive rate of interest and provides chequing privileges.

Further options are available through our Guaranteed Investment Certificates. Deposits for less than one year pay interest at maturity and the funds are available prior to the maturity date of the deposit. On deposits for more than one year and less than five years, interest is paid semi-annually. Holders of five-year certificates have the options to have their interest paid monthly, semi-annually, annually, or compounded annually until maturity.

Corporate Services

Our position as an industry leader was maintained as we were appointed corporate trustee of new debt issues exceeding \$1 billion in 1977, and fees received from the provision of corporate services reached a new high. Owing, in part, to instability of the Canadian dollar, services were provided with respect to a fewer number of foreign borrowings but a greater number of domestic placements during the year. While no appreciable increase in capital expenditures by business is expected in 1978, substantial amounts of financing through both debt and equity issues may still be anticipated.

Apart from a flurry of activity during the final quarter, the volume of stock trading for the greater part of 1977 remained at the reduced levels experienced during the past three years. Because of rising operating costs, coupled with our maintenance of October 1975 fee scales, the net revenue of the Stock Transfer Department was only marginally higher than in the previous year.

Consequent upon extensive research, the decision was reached during the year to proceed with the development of a new on-line computer system. The Automated Corporate Transfer System is being developed to improve the speed and accuracy of securities transactions. The conversion to the new system will commence during the fall of 1978 and it should be fully operational by early 1979.

Personal Trust Services

Steady growth in our Estate, Trust and Agency services continued during 1977. Personal Trust assets under administration at year-end showed a satisfactory increase and fees and commissions reached an historic high well in excess of \$8 million.

High and rising costs associated with Personal Trust services have largely offset increased revenues. Our determination to maintain a high standard of service to our clients through skilled and experienced staff has required tight control over discretionary costs and ongoing study of means through which productivity can be increased. During the past year an examination was completed and preliminary steps taken towards establishing a Common Trust Fund through which operating efficiencies in our fiduciary investment services can be derived.

As we have stated in previous years, the continuous upgrading of occupational skills and knowledge is essential in today's increasingly complex business world. Our response has taken the form of internally supervised staff development programs geared to familiarization with the broad range of services provided and products offered. In this regard industry standards have been established through the educational facilities of the Trust Companies Institute and we are greatly encouraged by the large numbers of our Personal Trust staff who have been awarded professional accreditation by that body.

Investment Funds

The Montreal Trust Retirement Savings Plan now has assets amounting to approximately \$155 million. This is our largest fund and continues to grow at a satisfactory rate in what appears to be a maturing market. To meet a growing demand, we introduced the new feature of a five-year Guaranteed Investment Certificate with interest compounded annually.

Our Mortgage Fund, combining high yield and security, continued to be a popular investment with the market value of the fund increasing approximately 100% in 1977 to some \$54 million. This includes the mortgage section of the Retirement Savings Plan.

We also experienced a strong demand for our Deferred Profit Sharing Plan which has proved particularly attractive to medium and small sized business firms. This year saw the installation of a fully computerized record-keeping system which has introduced substantial efficiencies in the administration of the Plan.

Growth in the Home Ownership Savings Plan amounted to 21% for the year, but further expansion may moderate in 1978 by reason of recent introduction of revised income tax legislation.

Pensions

The consistent growth in Pension and Benefit Fund assets under administration reported in previous years, has continued in 1977. Total assets under administration now exceed \$2.5 billion. The assets of Multiple Fund increased 9% to over \$175 million.

Continuing our policy to build our client service resources, a fully computerized financial accounting and participant record-keeping system was implemented in the fall of 1977 to service the growing number of custom-designed deferred profit sharing and group retirement savings plans. A new benefit and pension payment system has been developed and will be introduced early in 1978.

As the year closed, the private pension industry came under its closest scrutiny to date. The governments of Canada, Ontario and Quebec each initiated major studies in the field. Serious review of plan design and funding, including the implications of indexed benefits, the creation of new capital in the private sector, and the future of the public pension and income security packages are all being undertaken.

While the conclusions of these studies cannot be anticipated, the consequences may have a significant impact on the private pension industry. We are confident that the consensus will be positive for the industry as a whole, leading to continued growth in trustee pension and benefit fund assets.

Branch Operations and Marketing

Our branches enjoyed satisfactory results throughout the past year and increased their contribution to corporate growth through the production of new business.

Branch management appointments during the year were: Edgar N. Ellis, Kelowna, B.C., James F. Knox, St. John's, Nfld. and Stanley G.L. Blackwell as Manager of our new Kingston branch.

In addition to opening a new office in Kingston, extensive renovations were made to our Toronto and Montreal offices. During 1978, we will complete the expansion and relocation of our offices in Sudbury, Edmonton and Victoria.

The marketing directions taken in recent years have enhanced the Company's competitive position. We are continuing to improve the overall quality and competitiveness of our services, both intermediary and fiduciary.

Personnel Services

Close surveillance of salary and benefit costs was required in 1977 both from the point of view of operating costs and of A.I.B. controls. Competitive salary adjustments were implemented during the year.

More attention has been required to internal programs and systems to assure conformity with increasingly complex federal and provincial regulations affecting employers and employees. Changes in human rights legislation, labour laws and other social legislation, coupled with more rigid governmental controls and frequent audits of employee relations and compensation practices, require considerably more staff time and consulting services than in the past.

Costs of transferring key management and professional personnel have risen substantially. There is a continuing reluctance of some career employees to move because of language, social, political, economic and quality-of-life factors and this is a matter of increasing concern.

10 Year Summary

YEAR	GUARANTEED AND COMPANY ASSETS	REVENUE	EXPENSE	TAXES ON INCOME	NET OPERATING INCOME	PER SHARE NET OPERATING INCOME	*DIVIDENDS
1977	\$957,217,000	\$59,467,000	\$50,717,000	\$3,041,000	\$5,709,000	\$2.22	\$.86
1976	859,270,000	52,972,000	44,898,000	3,107,000	4,967,000	1.93	.80
1975	767,717,000	46,292,000	38,852,000	3,183,000	4,257,000	1.65	.70
1974	696,286,000	39,314,000	35,084,000	1,766,000	2,464,000	.96	.80
1973	627,441,000	37,551,000	29,832,000	3,519,000	4,200,000	1.64	.80
1972	593,222,000	33,913,000	25,479,000	3,860,000	4,574,000	1.82	.80
1971	545,298,000	30,991,000	23,320,000	4,000,000	3,671,000	1.50	.70
1970	509,682,000	25,624,000	22,569,000	1,435,000	1,620,000	.66	.55
1969	495,578,000	25,370,000	21,326,000	2,175,000	1,869,000	.76	.60
1968	450,144,000	21,950,000	19,247,000	1,147,000	1,556,000	.67	.60

*Declared with respect to the year's earnings.

Offices

Head Office

1 Place Ville Marie
Montreal, Quebec

Atlantic Region

Halifax, N.S.

R. Ross Pritchard, Regional
Vice-President and Branch Manager
Paul J. Dyer, Deputy Manager
Hollis and Prince Streets

Charlottetown, P.E.I.

Edgar G. Goss, Manager
119 Richmond Street

Saint John, N.B.

Cedric A. Stokes, Manager
61 King Street

St. John's, Nfld.

James F. Knox, Manager
253 Duckworth Street

Truro, N.S.

E. Keith Urwin, Manager
798 Prince Street

Quebec Region

Montreal

Jean Luc Dutil, Regional
Vice-President and Branch Manager
Andrew Scipio del Campo,
Deputy Manager
1 Place Ville Marie

Noella Coleman, Manager
Fairview Shopping Centre
Pointe Claire

Quebec City

Jean-Paul Labbé, Manager
500 Grande Allée East

Ontario Region

Toronto.

George Stephen,
Regional Vice-President
Ronald Bond, Vice-President and
Branch Manager
Frank L. Austin, Deputy Manager
15 King Street West

Brockville

W. Peter Lewis, Manager
4 Court House Avenue

Hamilton

Albert E. Hetherington, Manager
31 Main Street West

Kingston

Stanley G.L. Blackwell, Manager
165 Wellington Street

Kitchener

John R. Haygarth, Manager
58 King Street East

London

W. Frank O'Connor, Manager
160 Dundas Street

Ottawa

Hugh R. Williams, Manager
96 Sparks Street

Sudbury

Maurice J. Fleet, Manager
11 Durham Street South

Windsor

Stephen R. Dreschel, Manager
880 Ouellette Street

Mid-West Region

Winnipeg, Man.

Gordon C. McDonell, Regional
Vice-President and Branch Manager
Frank E. Robinson, Deputy Manager
Portage at Notre Dame Avenue

Regina, Sask.

Morris E.L. Sims, Manager
1908-11th Avenue

Saskatoon, Sask.

R. Eugene B. Griffith, Manager
234-21st Street East

Western Region

Vancouver, B.C.

Robert D. Quart, Regional
Vice-President and Branch Manager
E. Wallace Campbell,
Deputy Manager
466 Howe Street

Leonard E. Pitt, Manager
Oakridge Shopping Centre

Calgary, Alta.

Kenneth J. McGregor, Manager
411-8th Avenue South West

Edmonton, Alta.

Norman C. Raymond, Manager
10020-101A Avenue

William S. Kemp, Manager
Southgate Shopping Centre

Kelowna, B.C.

Edgar N. Ellis, Manager
262 Bernard Avenue

Victoria, B.C.

D.C. Michael Field, Manager
1057 Fort Street

Real Estate Offices

Barrie • Brockville • Calgary (2)
Edmonton (3) • Halifax (2)
Hamilton (3) • Kelowna • Kingston
London • Montreal (13) • Ottawa (2)
Quebec (3) • Regina • Saint John, N.B.
St. John's, Nfld. • Saskatoon
Sherbrooke • Sudbury • Toronto (6)
Truro • Vancouver (4) • Victoria (2)
Windsor • Winnipeg

Overseas

Hamilton, Bermuda

Montreal Trust (Bermuda) Limited

Nassau, Bahamas

Montreal Trust Company
(Bahamas) Limited

Advisory Boards

February 1, 1978

Brockville, Ont.

*J.R. Anstis
F.E. Case
T.C. Cossitt, M.P.
C.H. Hughes
J.W. Langmuir
T.A. Lindsay

Halifax, N.S.

*A.E. Johnson
S.S. Jacobson
D.A. Mercer
J.W.E. Mingo, Q.C.
W.O. Morrow
G.D. Stanfield

Newfoundland

*F.J. Ryan, Q.C.
D.R. Baird, C.A.
L.M. Brown
T.S.A. Freeman
J.J. Greene, Q.C.
D.C. Hunt, Q.C.
C.C. Pratt

Saint John, N.B.

*J.H. Turnbull
A.D. Case
A.L. Goldsmith
H.H. Gunter, Q.C.
L. Lockhart
J.A. MacMurray
G.R. Spencer

Truro, N.S.

*C.E. Stanfield
J.G. Glassey
R.L. MacDougall, Q.C.
R.J. MacLennan
K.P. Richard
Hon. G.I. Smith, Q.C.
F.T. Stanfield
W.H. Yeadon

Winnipeg, Man.

*C.E. Atchison
H. Buchwald, Q.C.
R.M. Chipman
F.O. Meighen, Q.C.
L.O. Pollard
C.S. Riley
D. Sprague, F.C.A.
A. Sweatman, Q.C.

*Chairman



Montreal Trust clients from across Canada illustrate the diversity of people, needs and regions the Company serves.



Montreal Trust